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SUBJECT: MOPIC PLAYS SHELL GAME WITH USDA \$60 MILLION

1. (SBU) Summary: Ambassador met with Deputy Prime Minister Ahmed Sofan on October 17, to convey USG's serious and growing concerns about the U.S. Department of Agriculture (USDA) food aid programs in Yemen. Ambassador told Sofan that USDA is sending a compliance team shortly to investigate and review the ROYG's handling of the programs from 1999 to present. The review must precede authorization of a 2005 shipment and any future programs. Sofan shied away from responsibility on previously signed commitments, saying, "It is in your hands, not ours." End summary.

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BACKGROUND  
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2. (SBU) In recent months, post has investigated the ROYG's management of various PL-480 and 416b programs since 1999. These programs amount to more than \$80 million. According to a September 28 conversation with USDA Export Credits Deputy Director Ron Croushorn, USDA estimated that approximately \$60 million remains unspent in Central Bank accounts. Post, however, estimated that there were approximately \$50 million in unspent funds, based on limited documents, an estimate of commodity sales, and the promised return of misallocated funds by the ROYG. During the investigation since May 2005, Post discovered several questionable expenditures and processes in the program, which were reported to USDA FAS Cairo and USDA Washington.

3. (SBU) On September 12, in an effort to resolve these problems, DCM and MOPIC Director General Nabil Shaiban signed minutes that outlined the following ROYG commitments:

- a) Transfer of \$8.9 million in misappropriated funds to an interest-bearing commercial account by October 30;
- b) Transfer of all FY 2003 and FY 2004 funds (amounting to an estimated \$39.5 million) to an commercial account by end of October;
- c) Signing of seven FY 2003 MOUs which have not been completed since October 2004;
- d) Cooperate with an official USDA review;
- e) Justification for the purchase of 75,000 school desks; and,
- f) Transfer of \$1.6 million to the Social Fund for Development (SFD) for the Marib Museum (allocated in 2002/2003)

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"THE COMPLIANCE TEAM IS COMING"  
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4. (SBU) USDA will be sending a compliance team to Yemen to review ROYG's management of the food aid program since 1999. The Ambassador met with Sofan to communicate, in strong terms, the seriousness of this action. He pointed out that "this assessment must precede authorization of the 2005 shipment and any future programs." He urged Sofan to complete all the commitments signed by the DCM and Shaiban before the compliance team comes in order to demonstrate that the ROYG has cleaned up the management of the program. Sofan asserted that an honest effort was underway to meet all commitments but his government would not be returning the \$8.9 million in misallocated funds until January when a new budget line for the item can be put in the national budget.

5. (SBU) Ambassador explained that the issue is not just the \$8.9 million, but that the ROYG needs to transfer as much as \$60 million from the Central Bank into an interest-bearing commercial account by October 30 and sign the seven 2003 MOUs. Ambassador continued, "You've got less than two weeks to do this according to the agreement." Sofan indicated that he knew of the commitments of the agreement, but insisted that it was the Embassy that was stalling on the program, that he would not do anything without the agreement of the joint Embassy-MOPIC technical committee, and closed by saying: "It is in your hands, not ours." The Ambassador firmly disagreed, "No, it's in your hands," and ended the meeting then moved on to other bilateral issues.

6. (SBU) As a direct result of this meeting, post received the seven requested 2003 MOUs on October 22. We have yet to see, however, a new interest-bearing account created in which to place all food-aid money.  
Krajeski